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Suit over Wall Viewed Seriously By Thrift Office

By TOM LEANDER

NEW YORK — A federal judge's decision to consider motions on a lawsuit challenging the constitutionality of the appointment of M. Danny Wall as the nation's top thrift regulator could set back the government's efforts to clean up the thrift industry, banking lawyers say.

"If the suit is successful in its broadest implications, the results would be absolute chaos," said Cantwell F. Muckenfuss III, an attorney in Washington for the Los Angeles law firm of Gibson, Dunn & Crutcher.

David Roderer, an attorney at the New York office of Jones, Day, Reavis, and Pogue, said, "The Office of Thrift Supervision is taking it very seriously because it can undo everything they've done."

ANALYSIS: *Follow-up on the news*

U.S. District Judge Royce Lamberth on Wednesday issued a temporary restraining order against the Office of Thrift Supervision, temporarily barring the agency from taking any action against Olympic Federal Savings and Loan Association, Berwyn, Ill. Judge Lamberth said he will hear motions on Tuesday for a preliminary injunction.

Olympic Federal, with $1.1 billion in assets, has been struggling to stay afloat under the capital requirements imposed as a result of the thrift bailout law signed last August. The thrift maintained that the OTS was preparing to seize it, but an attorney for the agency said Thursday that a decision had not yet been made.

Edward O'Meara, an attorney with the OTS, declined in a telephone interview to discuss the merits of Olympic's case.

Senate Did Not Confirm

Lawyers for Olympic argued in the suit that the appointments of Mr. Wall and Salvatore Martouche as directors of the OTS were unconstitutional because they were not confirmed by the Senate. Therefore, lawyers for the thrift argued, all of the agency's policies and regulations issued under either man are unlawful.

Mr. Martouche became interim director of the OTS on Tuesday, replacing Mr. Wall, who stepped down at the same time.

Lawyers for Olympic also argued that the thrift's application for open bank assistance as allowed under the thrift bailout law was still pending, and therefore the OTS couldn't take any

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INSIDE NEWS

FINANCE

PATHE COMMUNICATIONS is turning to commercial banks to raise about $1 billion for its proposed acquisition of MGM/UA Communications Co. *Page 16*

INTERNATIONAL

BRITISH BANKS seem increasingly vulnerable to acquisition as the European single market of 1992 approaches. *Page 13*

CONSUMER

BROKERAGE HOUSES are luring small-business accounts away from regional banks by offering a wider choice of financial services. *Page 8*

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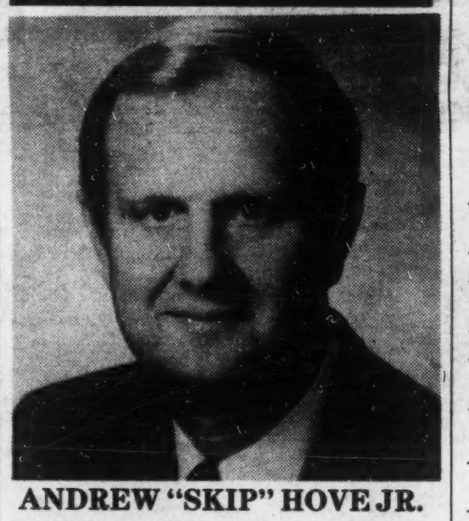
BUCKING THE TREND, some thrifts have been achieving big gains in loan volume, data for the third quarter show. *Page 10*

PEOPLE



ANDREW "SKIP" HOVE JR. will be nominated as a member of the Federal Deposit Insurance Corp. and Resolution Trust Corp. boards, according to sources. He's a community banker from Nebraska with 40 years in the business. *Page 2*

TECHNOLOGY

SOCIETY NATIONAL Bank plans to automate all of its trade finance operation in hopes of providing better customer services than regional offices of money-center banks. *Page 3*

OTHER NEWS

THE OFFICE OF THRIFT Supervision will face a second wave of problem institutions as it plows through hundreds of business plans submitted by capital-deficient thrifts, consultants said. *Page 2*

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House Panel Dilutes Penalty For Laundering Convictions

By ROBERT M. GARSSON

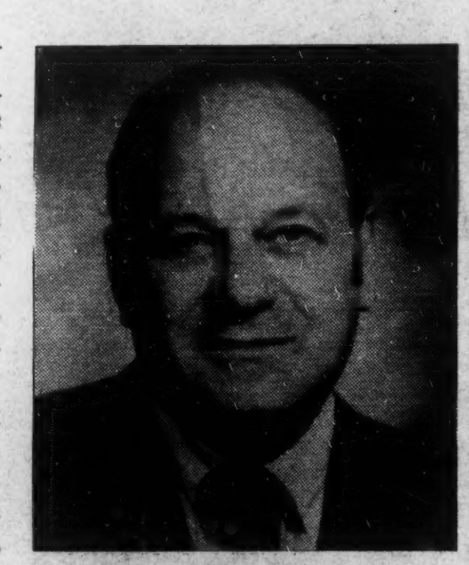
WASHINGTON — To the relief of banks, thrifts, and credit unions, a House Banking subcommittee on Thursday watered down a proposed measure that would have automatically revoked the charters of institutions convicted of money laundering.

Instead, the bill reported out of the financial institutions subcommittee gives regulators discretion to decide whether an offense was sufficiently serious to warrant revoking a charter or placing an institution in receivership.

Financial lobbyists, along with some lawmakers, were concerned that the original bill, introduced by the panel's chairman, Rep. Frank Annunzio, D-Ill., was written so broadly that an institution could be stripped of its charter if an employee were convicted on laundering charges.

Hearings Required

Under the approved measure, regulators would be required to convene a hearing to consider revoking an institution's charter if both the institution and more



Rep. Frank Annunzio

than one officer or director were convicted on money-laundering charges.

State-chartered institutions whose charter is beyond the reach of the federal agencies would lose their deposit insurance.

Similar legislation was introduced in the Senate Thursday by Sen. John F. Kerry, D-Mass.

The American Bankers Association's chief lobbyist, Edward L. Yingling, said the compromise approved Thursday is a big improvement over the original

See **HOUSE** *page* **6**

S&L Outsider Expected To Be Named To OTS Post

By BARBARA A. REHM and ROBERT M. GARSSON

WASHINGTON — The Bush Administation plans to name Timothy T. Ryan Jr., a Washington lawyer who served on the President's transition team, as director of the Office of Thrift Supervision, administration sources said Thursday.

The selection of Mr. Ryan, a virtual unknown to the thrift industry, comes as a surprise. His name was not among the many raised publicly as possible successors to M. Danny Wall, who resigned last Dec. 4.

Mr. Ryan was the Labor Department's top lawyer in the early 1980s and served as the general counsel for the Reagan/Bush transition team in 1988. He is a partner with the Washington office of the law firm Reed, Smith, Shaw & McClay.

Administration sources said late Thursday afternoon that an

See **U.S.** *page* **11**

Bankers Say IBM Ready to Test Imaging System

By RICHARD LAYNE

NEW YORK — IBM is expected to announce on Monday that its long-awaited image-processing system for checks is ready for testing, according to bankers who helped develop the system.

Scheduled to go live at the end of the year, the system could substantially reduce the cost of processing checks and improve customer service, the bankers said.

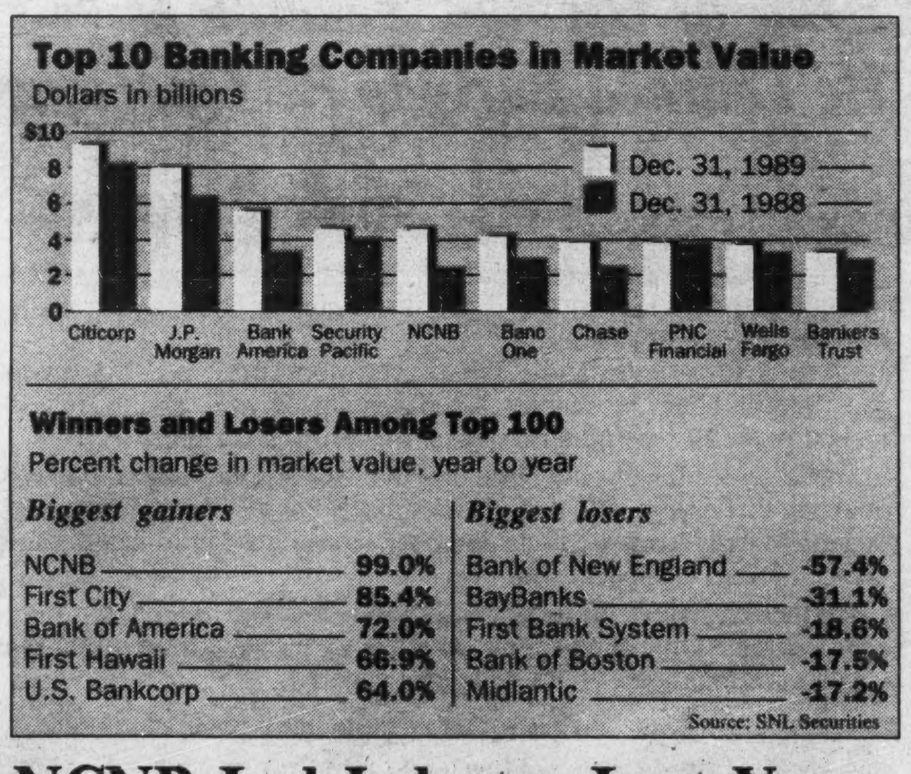
Security Pacific Corp. has said the system could save it as much as $50 million over five years.

IBM is also expected next week to unveil a personal-computer-based system for corporate lenders that is designed to link loan information with customer profitability analysis, according to executives at other computer companies.

First Attempt Failed

IBM created an imaging system for check processing in the mid-1970s, but the product failed, with only one bank installing it. The new system has been in the works for the past year and is expected to be unveiled at a technology confer-

See **IBM** *page* **3**



NCNB Led Industry Last Year With 99% Rise in Market Value

By KELLEY HOLLAND

NEW YORK — Asset size, earnings, and credit quality are key measures of a bank's status, but what warms the hearts of many bankers is a rapidly growing market capitalization.

By that measure, Hugh McColl, chief executive of NCNB Corp., had to be the happiest banker in America in 1989.

The total value of the Charlotte, N.C.-based banking company's outstanding common stock almost doubled last year, to $4.7 billion. The 99% increase, by far the largest in the industry, came on the heels of a 61% increase the year before, according to data supplied by SNL Securities.

Measure of Purchasing Power

A bank's market capitalization is the price of its stock multiplied by the total number of shares outstanding. It represents the market's assessment of the bank's value and its ability to make acquisitions. The greater a bank's market capitalization,

See **GROWING** *page* **14**

COMMENT / *By Janet Gray*

Titles, Titles Everywhere No Longer Serve a Purpose

Banks have always been an easy target for critics wanting to decry hierarchy and bureaucracy. And few would disagree that those have been characteristic of banks. Being such an old industry, banking has had a long time to acquire venerability, tradition, and, not incidentally, too many layers of management, a strict chain of command, and small spans of control.

But just as banks are eschewing tradition in favor of innovation, they are revamping their organizations to be more competitive. Some banks have aggressively downsized, others have experimented with centralization, decentralization, matrix structures, and dividing along functional, product, market, and geographic lines, back and forth. Banks will continue to look at their structures for ways to be ever more streamlined.

There's one remnant of bureaucracy that no bank has addressed: titles. Hierarchy is actually built into banking titles. Banks have traditionally rewarded performance and longevity with titles rather than with money. For a long time, prestige has been a substitute for responsibility. Everyone has a title.

"Title inflation" is a catch phrase for the proliferation of titles: When there are too many vice presidents, banks create "first" vice presidents, then "senior" vice presidents, and so on.

Now, of course, banks have become as competitive as any industry in their compensation and career opportunities. But the titles remain. It seems like a little thing, but it's not, really. There are some insidious problems built into the title structure and nomenclature.

One problem is that the titles have become meaningless. "Vice president" usually has some relationship to the office of the president, and in most industries is awarded fairly stingily. When there are hundreds and even thousands of vice presidents, what force does the title carry? Where is the achievement?

A more important problem is the hierarchy that is implied in these titles. It hampers flexibility and responsiveness to changing conditions. How can a first vice president report to an assistant vice president? It just isn't done. But organizational requirements change. And maybe what the assistant vice president is doing has become more important, strategically, than the first vice president's area of responsibility. Psychologically, the bank is stuck. It can't break the implicit hierarchy.

How About 'Manager Of'

Nowadays, compensation is competitive, careers paths are exciting, flexibility is crucial. Clearly, titles have outlived their usefulness. Why not, then, banish all corporate titles in favor of functional titles that better describe what the managers actually do? Change all the titles to "manager of" and suddenly the organization's structure, deployment of human resources, and working relationships can be viewed in a whole new light.

Functional titles can more easily be moved around in a reorganization. The manager who would suffer a loss of face if stripped of a title, or forced to report to someone with a "lesser" title, could probably live with the strategic decision to move a function under another function that has become important. There is no personal implication in such a move.

Focus on mission-related work can be improved simply by keeping the name of the group in the forefront. Instead of being one of hundreds of vice presidents, a manager can take pride in being the sole manager of his or her area of expertise. Perhaps the uniqueness would encourage the manager to make that group the best it can be.

To Encourage Participation

Some of the trappings of titles would fall away fairly quickly. Imagine a meeting of the vice president of marketing, the senior vice president of retail banking, the assistant vice president of cost accounting, and the product manager to discuss the introduction of a new product. You can guess who will do the most and who the least talking.

Contrast this with a meeting of the managers of marketing, retail banking, the product, and cost accounting. This is a meeting of equals. As manager of an important function, each will be expected to contribute to and participate in the discussion and decision-making. No one can dominate by virtue of an irrelevant title.

There are other bonuses. For one thing, studies show that meaningful participation can result in increased productivity. And titles are expensive nowadays! Whereas in the past titles were given in lieu of monetary rewards, today not only does an increase in base salary accompany a promotion in title, but the standard benefits also increase, not to mention the perquisites of the executive titles, such as cars, car phones, executive services, and so on.

See **COMMENT** *page* **12**

Ms. Gray is president of Focus Organization Consulting in Los Angeles.

LETTERS

Wire-Security Report Is Termed Inaccurate

To the Editor:

The article in your Feb. 22 edition ["GAO Study Pinpoints Gaps in Wire-Transfer Security," page 1] was misleading and inaccurate insofar as it dealt with the Clearing House Interbank Payments System.

The GAO study said Chips controls were "relatively strong." With respect to the three very minor items the government auditors noted, the report said two were fully corrected and the other was in progress toward correction prior to the time the report was issued.

John F. Lee
President
New York Clearing House

FUNNY MONEY / *By Tom Leander*

Keep 'em Quaking

NCNB Corp. chairman and chief executive Hugh L. McColl has a voracious appetite for rival banks, one of the reasons he is among the most feared men in banking today.

Hugh L. McColl

Mr. McColl did nothing to dispel that image at the Montgomery Securities Financial Institutions Conference in Newport Beach, Calif., last week. Asked after a presentation why the company's Southeast banking network does not include Georgia, Mr. McColl replied, "It's not for lack of trying" – a not very veiled reference to his hostile bid last year for Citizens and Southern Corp., Atlanta.

After a pause, Mr. McColl continued, "There are only two people in the United States who will take my telephone calls: [Federal Deposit Insurance Corp. Chairman] Bill Seidman and [Federal Reserve System banking supervision director] Bill Taylor."

— Sam Zuckerman

Acrimonious Acronym

Amid the swirl of groups promoting reforms to the deposit insurance system, one constituency is missing – the depositor. The result, says Karen Shaw, executive vice president of the Institute for Strategy Development in Washington, is that depositors' interests are not well represented in the insurance debate.

Karen Shaw

"Perhaps we need a group like the Depositors of America," she suggests, but cautions that its acronym may prove prophetic: DOA.

— Robert Trigaux

* * *

Unfashionable Slip

Henry Kravis, chief of Kohlberg Kravis Roberts & Co., may be renowned for his skills as a leveraged buyout artist. But a New York audience made it clear on Tuesday that he might reexamine his gifts as a humorist.

Mr. Kravis was addressing a luncheon sponsored by the Financial Women's Association at the posh Rainbow Room restaurant in Rockefeller Center. As an opener to his speech, Mr. Kravis said that he wished his wife, fashion designer Carolyne Roehm, could be present.

"She could have gotten up and talked about what's probably of much more interest – fashion." he said. The mostly female audience immediately broke into a round of hisses and boos.

Shortly after the speech, Mr. Kravis told a group of reporters that he was sorry he made the comment.

* * *

Another Fine Mess

Manufacturers Hanover's name appeared in a half-page ad run by the East Orange Municipal Court in the Newark, N.J., *Star-Ledger* last month. The ad included the bank in a list of car owners whose vehicles had racked up more than 50 unpaid parking tickets. The bank and 49 other scofflaws had until Feb. 21 to pay.

The Manufacturers Hanover car had 98 $20 tickets, says Esther Martinez, a clerk at the East Orange court. As of Wednesday morning, no one had come forward with the money.

Bank spokesman John Meyers says the car was leased from Wheelease, the bank company's car leasing subsidiary in Hicksville, N.Y. "Just one of our customers who racked up a lot of parking tickets," said Mr. Meyers.

He added that payment of the tickets is "his headache, not ours."

* * *

No Lease on Plant Life

It's no secret in Minneapolis business circles that John F. Grundhofer, First Bank System Inc.'s new chief executive, has arrived at his job with a set of pruning shears.

John Grundhofer

The latest cost-cutting anecdote making the rounds concerns a budget-slashing move on the bank's office plants. With the exception of some plants in public reception areas, the greenery leased from a local nursery for corporate offices has been returned, a spokeswoman confirmed.

While the total cost saving wasn't available, the spokeswoman said that in the Twin Cities area alone the bank will save about $90,000 a year.

Mr. Grundhofer, she added, has said he would buy his own office plants.

— Nanine Alexander

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S&L Loan Patterns Uneven

Some Institutions Buck Downward Trend

By PHIL ROOSEVELT

NEW YORK — While thrifts have pulled back from mortgage originations in the wake of the bailout law, the magnitude of the retreat varies markedly from thrift to thrift.

Some thrifts, in fact, have been posting big gains in loan volume.

The most recent regulatory data show that originations by the top 50 thrifts in the field rose just 1.4% during the third quarter of 1989, compared with the first quarter. By contrast, total originations by all types of lenders rose 15%, with commercial banks emerging as particularly strong, reported the Department of Housing and Urban Development.

(The originations of the top 50 thrifts during the third quarter cannot be compared with originations a year earlier, because regulators did not disclose originations data until 1989).

The relatively weak originations of the top 50 reflects a widely discussed pullback by the thrift industry as a whole. Thrifts have become less aggressive in originations to curb asset growth and meet the capital-to-assets mandates of the bailout law signed last August. Thrifts, which favor adjustable-rate mortgages, also have been hurt by increased demand for fixed-rate loans.

But some S&Ls, such as San Francisco-based First Nationwide Bank and Newport Beach, Calif.-based Household Bank managed to post increases of more than 100%.

"We've made a very concerted effort in mortgages in the past couple of years," said a spokeswoman for Household Bank. She added that the thrift meets all capital requirements and can gain additional financial support from its parent, Household International.

Even some thrifts that suffered declines last year are now boosting their originations.

Los Angeles-based Home Savings of America, the nation's largest thrift, reported record originations in January and February, with each month's volume slightly exceeding $1 billion. In February 1989, Home originated $894 million of mortgages.

Although California home sales have been cooling, Home has been doing a brisk business in refinancings, targeting homeowners who want to convert some home equity into cash.

Some thrifts have been bucking the trend of declining originations by selling their new loans rather than holding them. Cleveland-based TransOhio Savings Bank, which generally sells all of its originations, boosted its production 58% from the first quarter to the third.

Still, six of the top 10 thrifts in originations posted drops between the first and third quarters last year.

"We intentionally cut back our loan production last year," said Robert Adelizzi, chief executive of HomeFed Corp., San Diego. "We were controlling our asset growth to keep our capital in line, so we can take advantage of acquisition opportunities that the consolidation of the industry is going to present."

Great Western Bank, Beverly Hills, Calif., was the top thrift in originations in the third quarter, though its total was off 25% from the first quarter. The unit of Great Western Financial Corp. says its first quarter was unusually high. □

Top 50 Thrifts in Originations

Residential mortgages originated in the third quarter of 1989, compared with the first quarter of 1989 ($ thousands)

		Originations 7/89-9/89	Originations 1/89-3/89	Percent change
1	Great Western Bank, FSB, Beverly Hills	2,207,362	2,924,233	-24.51
2	Home Savings of America, FA, Irwindale, Calif.	2,089,179	2,675,395	-21.91
3	First Nationwide Bank, FSB, San Francisco	1,330,695	485,864	173.88
4	World Savings, FS&LA, Oakland, Calif.	1,000,688	1,307,818	-23.48
5	City Federal Savings Bank, Elizabeth, N.J.	685,928	612,122	12.06
6	Household Bank FSB, Newport Beach, Calif.	617,461	222,282	177.78
7	Home Federal Savings & Loan Assn., San Diego, Calif.	554,907	1,094,859	-49.32
8	Western Federal Savings & Loan, Marina Del Rey, Calif.	535,258	588,654	-9.07
9	TransOhio Savings Bank, Cleveland	490,963	310,180	58.28
10	American Savings Bank, FA, Stockton, Calif.	484,598	584,180	-17.05
11	California Federal Bank, FSB, Los Angeles	460,596	680,409	-32.31
12	Glendale Federal Bank, Calif.	447,771	648,684	-30.97
13	Home Owners Savings Bank, FSB, Boston	380,023	184,002	106.53
14	Great American Bank, SSB, San Diego, Calif.	378,435	422,810	-10.5
15	Coast Savings & Loan Assn., Los Angeles	363,756	483,143	-24.71
16	Union Federal Savings Bank, Indianapolis, Ind.	336,032	238,400	40.95
17	Citicorp Savings of Florida, FS&LA, Maimi	335,375	N.A.	N.A.
18	Standard Federal Bank, Troy, Mich.	304,989	122,944	148.07
19	First Federal Savings & Loan Assn., Rochester, N.Y.	286,591	229,192	25.04
20	Guardian Savings & Loan Assn., Long Beach, Calif.	282,154	211,649	33.31
21	Goldome Savings Assn., St. Petersburg, Fla.	271,841	N.A.	N.A.
22	Carteret Savings Bank, FA, Newark, N.J.	243,302	306,332	-20.58
23	Perpetual Savings Bank FSB, McLean, Va.	236,196	167,653	40.88
24	Chevy Chase Savings Bank, FSB, Md.	211,830	122,043	73.57
25	Far West Savings & Loan Assn., Newport Beach, Calif.	207,838	83,888	147.76
26	Hamilton Savings Bank, FSB, San Francisco	205,778	87,073	136.33
27	Pacific First Federal Savings Bank, Seattle	184,132	95,551	92.71
28	ComFed Savings Bank, Lowell, Mass.	181,184	216,753	-16.41
29	Boston Five Cents Savings Bank FSB	178,896	111,158	60.94
30	Suncoast Savings & Loan Assn., Hollywood, Fla.	163,765	51,502	217.98
31	Northeast Savings, FA, Hartford, Conn.	160,965	222,927	-27.79
32	Great Financial Federal S&L Assn., Louisville, Ky.	158,531	110,879	42.98
33	Dominion FS & LA, Tysons Corner, Va.	157,380	171,682	-8.33
34	Columbia Savings & Loan Assn., Beverly Hills	153,492	223,446	-31.31
35	Third Federal Savings & Loan Assn., Cleveland	148,929	93,801	58.77
36	Benjamin Franklin Federal S&L Assn., Portland, Ore.	147,725	63,583	132.33
37	First Federal Savings Bank, Santa Monica, Calif.	144,990	132,520	9.41
38	First Federal of Michigan, Detroit	138,579	97,156	42.64
39	Security Savings Bank SLA, Vineland, N.J.	134,562	97,521	37.98
40	Long Beach Savings & Loan Assn., Calif.	129,712	75,855	71
41	AmeriFirst Bank, FSB, Miami	125,708	96,118	30.79
42	Investors Savings Bank, FSB, Minneapolis	117,414	62,424	88.09
43	San Francisco Federal Savings & Loan Assn.	116,400	136,426	-14.68
44	Bank Western FSB, Denver	111,185	51,312	116.68
45	HonFed Bank, FSB, Honolulu	108,191	105,854	2.21
46	Security Savings & Loan Assn., Milwaukee	105,821	N.A.	N.A.
47	Washington Federal Savings & Loan Assn., Seattle	105,334	38,594	172.93
48	Southern California S&L Assn., FS&LA, Beverly Hills	102,459	78,276	30.89
49	Downey Savings & Loan Assn., Costa Mesa, Calif.	96,333	64,764	48.74
50	Ameribanc Savings Bank, Annandale, Va.	92,717	60,966	52.08

Data source: Data provided by **ADP Data Services Division, New York**, from their data base of Thrift Financial Report submitted by S.A.I.F.-insured thrifts to the Office of Thrift Supervision. **Residential mortgage originations:** permanent mortgage loans closed during the calendar quarter on newly built or previously occupied one-to-four family dwelling units. **N.A.**— Not available.

SECURITIES

Fannie Mae Buys Balloon Loans With 2-Step Feature for Portfolio

The Federal National Mortgage Association, which last year met with surprising success buying and securitizing balloon-payment home loans, is now supporting a variation.

Fannie Mae this week began buying "two-step" mortgages, which carry one rate for seven years and then adjust automatically to another rate for the next 23 years. Aimed at borrowers who do not expect to keep their homes for long, the loan carries an initial interest rate lower than those on traditional, fixed-rate, 30-year mortgages.

The agency is buying the two-step loans for cash and holding them in its portfolio. But it may eventually offer to securitize them for lenders, a spokesman said.

Similar to Balloon Loan

The new loan is similar to Fannie Mae's seven-year balloon loan, which emerged as one of the hottest new mortgages of 1989. The balloon can be readily "extended" after seven years, as long as the borrower's payments are current and interest rates have not soared.

This week, Fannie Mae's pricing allowed lenders to offer both loans at about 38 basis points below the rates for traditional fixed-rate mortgages.

In the future, however, one loan or the other may periodically enjoy a pricing advantage, Fannie Mae officials said. And borrowers may view the two-step loan as less risky than the balloon, since the new product guarantees that financing will be available after seven years.

Offering Both Types

Some lenders that offered the balloons are adding the two-step mortgage. "We're going to hold them both out and see who rallies where," said Ken Portz, a senior vice president California Federal Bank, Los Angeles.

Because an active market exists for securities backed by balloon loans, lenders may soon be able to offer those loans to consumers at rates slightly below those for the two-step mortgage, Mr. Portz added.

Fannie Mae began a securitization program for balloons last October, after launching a purchase program in July. The rival Federal Home Loan Mortgage Corp. began supporting a similar type of loan in November.

— Phil Roosevelt

TALKING *markets*

Fleet Uses Loan Rebates To Cross-Sell

Fleet/Norstar Financial Group Inc., which has taken the wholesale mortgage market by storm, is now trying to boost its retail originations.

As part of that plan, the Providence, R.I.-based holding company this week launched a loan program aimed specifically at increasing originations at its eight commercial bank units, which are located in New England and New York State.

1% of Loan Goes to Borrower

The Cash Back Mortgage Plan offers rebates of 1% of the loan amount to borrowers who keep their loans for at least five years and make automatic monthly payments through a Fleet/Norstar checking account.

Designed to encourage borrowers to sign up for other Fleet/Norstar services, the program is similar to one launched last year by Security Pacific National Bank, Los Angeles.

"This is an effort to activate our banks more heavily in the mortgage lending process," said Andrew Woodward, president of Fleet/Norstar's mortgage unit. It "fits with our overall effort of trying to increase direct originations," he added.

Fourth-Largest Originator

In 1989, Fleet/Norstar produced $9.4 billion of mortgages, up from $5.4 billion in 1988. That made the company the nation's fourth-largest originator, according to *Inside Mortgage Finance*, a newsletter.

But only about 30% of last year's total came through retail sources; the rest represented loans purchased from other lenders in the wholesale market, the company said. Mr. Woodward estimated that the eight banking units accounted for 15% of all retail originations, with a nationwide network of mortgage offices handling the rest.

Mr. Woodward said there are no plans to cut back on wholesale production. But he said the company would like to boost retail production, by an unspecified amount, as way to add stability to overall originations.

The stipulation that borrowers hold the loans for at least five years also gives Fleet/Norstar more certainty about cash flows from the mortgages. The company sells its originations but earns fees by servicing the loans.

"The five years gives us some stability in the servicing portfolio," Mr. Woodward said.

— Phil Roosevelt

Key Interest Rates

	Week ended 3/2/90	Week earlier 2/23/90	Year earlier 2/24/89
30-year fixed-rate mortgage	10.27	10.33	10.88
1-year adjustable-rate mortgage	8.43	8.43	8.83

Rates are based on a weekly survey of 2,000 lending institutions nationwide. The averages reflect rates for a range of loan sizes.
Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 3/2	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9½%	98-11	-0-09	9.93	+0.05	+134	-1
Fannie Mae 9½%	98-08	-0-06	9.92	+0.04	+133	-3
Freddie Mac 10%	99-29	-0-03	9.97	+0.02	+138	-4

Yield: bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. **Treasury spread:** the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. (*)— Current coupon changed since last week.
Source: Merrill Lynch Mortgage Capital, New York

CAPITAL

Growing Market Capitalization Gives Banks Clout as Acquirers

Continued from *page* 1

the stronger it can be as an acquirer.

Market capitalization does not always reflect a bank's asset size. Indeed, some of the banks with the largest market capitalization are far from the top of the list in terms of asset size.

For example, Banc One Corp.'s market capitalization of $4.2 billion exceeded Chase Manhattan Corp.'s $3.9 billion at year end, but Chase had four times the assets of Banc One.

Bankers love to see their market capitalization growing, said Mark Lynch, an analyst at Bear Stearns & Co. because "it gives them more power to go out and buy other banks."

Overall, the market capitalization of the largest 50 commercial banks grew 21% in 1989 to about $116 billion, slightly less than the 23% increase in 1988. Last year's rise came after a roller-coaster ride that saw bank stocks strengthen in the first three quarters of the year, before beginning a steep plunge in autumn.

Despite a tepid mid-February rally, the fall in bank stock prices has continued, eroding banks' market strength. Since the start of the year, the Keefe Bruyette & Woods index of 24 major bank stocks is off 6.4%.

Indeed, NCNB, whose stock was down $2.25 at noon on Thursday after some analysts reduced earnings estimates, suffered a decline in market capitalization to $4.365 billion from $4.682 billion at yearend (see related market story on page 16).

Other Big Gainers

Trailing NCNB, the big gainers for 1989, according to SNL Securities were First City Bancorporation of Texas, up 85.4%; BankAmerica Corp., up 72.0%; First Hawaiian Inc., up 66.9%; and U.S. Bancorp, up 64.0%.

In contrast, ballooning real estate problems turned Bank of New England Corp. into the year's biggest loser, down 57.4% to $649 million in market capitalization. Among the other big losers were the bank's Boston neighbors, BayBanks Inc., down 31.1%, and Bank of Boston Corp., which fell 17.5%. Also among the big losers were First Bank System Inc., down 18.6%, and Midlantic Corp., off 17.2%.

Citicorp continued to be the bank with the greatest market capitalization, following a 13.6% growth in value in 1989 to $9.377 billion. J.P. Morgan & Co., held on to second place, rising 27.9% to $8.084 billion.

But BankAmerica's strong surge enabled it to jump from sixth to third place, displacing Security Pacific Corp. which fell to fourth. NCNB vaulted to fifth place from 14th in 1988.

Wells Fargo & Co., which had been fifth in 1988, dropped to ninth place last year, while PNC Financial Corp., dropped from fourth place to eighth over the same period.

Key to NCNB's Success

It was just this growing strength that NCNB used to outbid competitors for the failed First RepublicBank Corp., with its strong Texas franchise and about $20 billion in assets. NCNB picked up a 20% stake in 1988 and completed the acquisition in 1989, issuing new common last year to help pay the $1.4 billion tab. But investors hardly blinked at any potential dilution.

"A lot of people looked at the acquisition in Texas as a great deal at first," said Joseph Berry, executive vice president at Keefe, Bruyette & Woods. "After they looked at it a little, it seemed even better."

Investors' positive view of the undertaking grew as NCNB Texas National Bank began to produce strong earnings growth. Moreover, the value of the tax benefits in the transaction was more quickly realized as NCNB increased its ownership more swiftly than planned.

The next biggest gainer after NCNB in 1989 was Texas' recapitalized First City Bancorp., which posted an 85% increase to $669 million in market capitalization. Initially, said Brent Erensel, senior banking analyst at Donaldson, Lufkin & Jenrette, First City's investment banker, "investors had little confidence in Texas or in the prospects for the recapitalization." But First City produced earnings that outpaced investor expectations, and the Texas economy began to improve.

BankAmerica, continued its resurgence with a hefty 72% increase to $5.626 billion in market capitalization in 1989. Strong earnings pushed the bank's book value up sharply, and the stock price followed, according to Joseph Arsenio, an analyst at Hambrecht & Quist. "The bank had a tremendous return on equity," he said.

On the down side, Bank of New England, with all of its well-publicized troubles, experienced a 57.4% decline in market capitalization. As problems mounted in its commercial real estate loan portfolio, its stock price declined sharply from a 1989 high of $24.375 to finish the year at $9.375, for a market cap of $649 million.

With Bank of New England stock trading today around $4.50, the market cap for the company today is about $312 million. That is a drop in market cap since yearend of 52%.

* * *

Great American Bank announced it has retained Shearson Lehman Hutton Inc. to assist it in raising needed capital. A spokesman for the bank declined to specify how much capital the thrift planned to raise. Great American's stock was trading Thursday at $4.25, up 50 cents for the week.

Great American announced Monday that it may seek an outside investor to help it meet capital requirements. □

MARKET CAP

Largest Companies in Market Capitalization

Banks listed in order of the market value of their common stock on December 31, 1989 (dollar amounts in millions)

Rank 12/89		Mar. Cap. 12/31/89	Assets 12/31/89	Change 12/88
1	Citicorp, New York	9,377	230,643	13.6
2	J.P. Morgan & Co., Inc., New York	8,084	88,964	27.9
3	BankAmerica Corp., San Francisco	5,626	98,764	72.0
4	Security Pacific Corp., Los Angeles	4,704	83,943	15.9
5	NCNB Corp., Charlotte, N.C.	4,682	66,191	99.0
6	Banc One Corp. Columbus, Ohio	4,238	26,552	47.4
7	Chase Manhattan Corp., New York	3,916	107,369	58.9
8	PNC Financial Corp, Pittsburgh	3,902	45,661	6.6
9	Wells Fargo & Co., San Francisco	3,784	48,737	19.3
10	Bankers Trust New York Corp.	3,362	55,658	18.4
11	SunTrust Banks, Inc., Atlanta	2,928	31,044	14.2
12	Fleet/Norstar Financial Group, Inc., Providence, R.I.	2,852	33,441	4.1
13	First Wachovia Corp., Winston-Salem, N.C.	2,837	24,050	37.8
14	Bank of New York Company, Inc.	2,733	48,856	16.7
15	Chemical Banking Corp., New York	2,441	71,513	20.0
16	First Chicago Corp.	2,424	47,907	31.3
17	National City Corp., Cleveland	2,373	22,972	19.3
18	Manufacturers Hanover Corp., New York	2,317	60,500	59.7
19	NBD Bancorp, Inc., Detroit	2,303	25,771	29.2
20	Sovran Financial Corp., Norfolk, Va.	2,274	25,442	13.0
21	Barnett Banks, Inc., Jacksonville, Fla.	2,270	29,007	11.2
22	First Union Corp., Charlotte, N.C.	2,210	32,131	(6.6)
23	Norwest Corp., Minneapolis	2,104	24,335	47.4
24	First Interstate Bancorp, Los Angeles	2,043	59,051	(0.8)
25	Citizens and Southern Corp., Atlanta	1,829	23,313	20.0
26	CoreStates Financial Corp, Philadelphia	1,596	16,849	0.1
27	Republic New York Corp.	1,553	25,467	20.5
28	U.S. Bancorp, Portland, Ore.	1,551	16,975	64.0
29	Shawmut National Corp., Hartford, Conn.	1,481	28,145	(16.0)
30	Fifth Third Bancorp, Cincinnati	1,448	7,143	46.7
31	State Street Boston Corp., Boston	1,412	9,983	48.0
32	MNC Financial, Inc., Baltimore	1,383	19,672	4.7
33	First Fidelity Bancorp., Newark, N.J.	1,360	30,727	(12.3)
34	Bank of Boston Corp.	1,353	39,178	(17.5)
35	Midlantic Corp., Edison, N.J.	1,200	23,666	(17.2)
36	Boatmen's Bancshares, Inc., St. Louis	1,109	14,542	6.4
37	KeyCorp, Albany, N.Y.	1,103	15,461	33.4
38	Northern Trust Corp., Chicago	1,073	10,938	59.6
39	First Bank System, Inc., Minneapolis	1,052	20,820	(18.6)
40	Mellon Bank Corp., Pittsburgh	1,044	31,467	13.2
41	Huntington Bancshares Inc., Columbus, Ohio	1,024	11,680	56.7
42	Continental Bank Corp., Chicago	988	29,549	17.0
43	Ameritrust Corp., Cleveland	934	11,233	20.5
44	Crestar Financial Corp., Richmond	890	11,361	23.8
45	Signet Banking Corp., Richmond	855[1]	12,476	8.4
46	First of America Bank Corp., Kalamazoo, Mich.	835	12,793	53.6
47	UJB Financial Corp., Princeton, N.J.	832	12,172	(7.8)
48	Bancorp Hawaii, Inc., Honolulu	815	8,317	45.5
49	Comerica Inc., Detroit	794	12,149	10.5
50	Manufacturers National Corp., Detroit	787	10,305	17.3
51	Marshall & Ilsley Corp., Milwaukee	770	7,151	29.3
52	Michigan National Corp., Farmington Hills, Mich.	747	11,480	10.6
53	Meridian Bancorp, Inc., Reading, Pa.	742	11,925	3.2
54	Society Corp., Cleveland	742	10,903	0.6
55	Union Bank, Los Angeles	739	15,376	(4.9)
56	City National Corp., Beverly Hills, Calif.	737	4,699	25.1
57	Firstar Corp., Milwaukee	725	8,608	28.0
58	Dominion Bankshares Corp., Roanoke	717	10,120	15.1
59	Old Kent Financial Corp., Grand Rapids, Mich.	709	8,127	23.2
60	First Hawaiian, Inc. Honolulu	679	5,080	66.9
61	First City Bancorp. of Texas, Houston	669	14,081	85.4
62	Wilmington Trust Co., Wilmington, Del.	653	3,703	37.1
63	Mercantile Bankshares Corp., Baltimore	650	4,018	41.5
64	Bank of New England Corp., Boston	649[1]	31,471[2]	(57.4)
65	Southeast Banking Corp., Miami	643	16,525	(5.4)
66	Star Banc Corp., Cincinnati	636	5,949	17.2
67	First Virginia Banks, Inc., Falls Church	631[1]	5,120	21.3
68	Integra Financial Corp., Pittsburgh	620	6,768	NA
69	Southtrust Corp., Birmingham, Ala.	617	7,763	17.6
70	First Pennsylvania Corp., Philadelphia	613[1]	6,605[2]	28.9
71	Hibernia Corp., New Orleans, La.	598	6,699	29.8
72	AmSouth BanCorp., Birmingham, Ala.	578[1]	8,563	4.8
73	First Alabama Bancshares, Inc., Montgomery	573	5,550	12.9
74	Synovus Financial Corp., Columbus, Ga.	522	2,410	41.4
75	INB Financial Corp., Indianapolis	508	6,015	3.3
76	Commerce Bancshares, Inc., Kansas City, Mo.	484	5,829	19.5
77	First American Corp., Nashville, Tenn.	479	7,058	(5.9)
78	South Carolina National Corp., Columbia	476	6,216	(6.3)
79	BayBanks, Inc., Boston	475	9,913	(31.1)
80	Central Fidelity Banks, Inc., Richmond	474[1]	5,335	8.9
81	First Florida Banks, Inc., Tampa	453	5,565	5.8
82	First Empire State Corp., Buffalo, N.Y.	449	6,234	22.5
83	Fourth Financial Corp., Wichita, Kan.	444	3,182	45.4
84	Northeast Bancorp, Inc., New Haven, Conn.	433	3,484	(6.9)
85	Banco Popular de Puerto Rico, San Juan	431	5,923	21.4
86	Merchants National Corp., Indianapolis	423	5,577	9.7
87	Mercantile Bancorp., Inc., St. Louis	420	6,942	2.6
88	Dauphin Deposit Corp., Harrisburg, Pa.	409	3,259	4.4
89	Bank South Corp., Atlanta	405	5,136	20.2
90	First Security Corp., Salt Lake City	404	5,795	33.1
91	First Tennessee National Corp., Memphis	396	6,398	2.3
92	BB&T Financial Corp., Wilson, N.C.	388	4,808	20.1
93	Puget Sound Bancorp, Tacoma, Wash.	386	4,294	26.4
94	United Missouri Bancshares, Inc., Kansas City	379	4,038	8.8
95	Valley Capital Corp., Las Vegas, Nev.	358	3,069	51.5
96	First Bancorp. of Ohio, Akron	357	3,334	17.6
97	U.S. Trust Corp., New York	349	2,526	(5.1)
98	Summit Bancorp., Summit, N.J.	337	3,865	(13.8)
99	National Community Banks, Inc., Rutherford, N.J.	334	4,023	(11.4)
100	Valley National Bancorp, Clifton, N.J.	314	1,823	(6.8)

Data source: **SNL Securities,** Charlottesville, Va. **Description of the table:** A listing of 100 banking companies with the largest market capitalization. **Mar. Cap.** is market capitalization. It is computed by multiplying the number of common shares outstanding at the bank at yearend 1989 (unless otherwise noted) by the closing market price of the bank's stock on Dec. 29, 1989, the last trading day of the year. **Assets:** the total assets of the banking company on Dec. 31, 1989, unless otherwise noted. **Change 12/88:** Percentage change in market capitalization from yearend 1988 to yearend 1989, unless otherwise noted. (1)— Market capitalization is based on the number of shares outstanding on 9/30/89. (2)— Assets are as of 9/30/89.

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